

SELF-HELP GROUPS: A VIABLE TOOL FOR FINANCIAL INCLUSION IN INDIA

*By Dr. GitteMadhukar R.,
Associate Professor in Economics,
Elphinstone College,
Mumbai-400032.
Email: madhukar.gitte13@gmail.com
Mob: 9869180656.*

ABSTRACT

Financial inclusion is the process of ensuring access to financial services to vulnerable sections of the society so as to raise their income and standard of living. Micro finance and SHGs are important tools of financial inclusion. The SHG is a rural-based financial intermediary to bring a change in the life of poor people in rural areas. It is an important instrument of micro finance and financial inclusion because of its leading role in promoting savings, mobilizing resources, cultivating banking habits, generating employment, empowering rural women and providing economic and social justice.

Keywords: Financial inclusion, Micro finance, Micro credit, Self-help groups,

Introduction

Majority population of the country especially hitherto neglected groups and weaker sections have not received much loans and other benefits from public sector banks. Hence, finance and financial services are crucial instruments to achieve the objective of financial inclusion.

Financial inclusion is defined as the process of ensuring easy access to timely and adequate credit at reasonable interest and other financial services to vulnerable groups. It comprises basic banking services like saving accounts, adequate credit, access to payments, remittance facilities, credit and debit cards, life and general insurance services, financial advice, training and guidance, empowering of SHGs and such other services.

Objectives of the Study

- (1) To explain the role and importance of micro finance, self help groups and the financial inclusion in developing economy like India.
- (2) To analyze various approaches and models of microfinance and SHG-BLP to achieve financial inclusion in the country.
- (3) To examine the progress and achievements of self help groups in India.
- (4) To enumerate various problems and difficulties faced by SHGs.
- (5) To suggest remedial measures to improve the functioning and performance of SHGs.

Research Methodology

The study is exclusively based on secondary data and information which has been collected from various published sources such as Annual Reports of NABARD, Status Report on Microfinance, Economic Surveys, Journals and articles, and websites. This data is further analysed by using statistical tools.

Population below Poverty Line in India

The ultimate objective of economic planning is to eradicate poverty and to improve the standard of living of the poor people. India and other developing countries are facing the problem of mass poverty particularly in rural areas. Micro finance has been recognized as an effective tool for poverty eradication and for improving social and economic conditions of the poor. As a result, a large number of self help groups have been formed to mobilize savings and also to cater the credit needs of the members of SHGs. Table given below shows the population below the poverty line in India over the years. In 1973-74, nearly 55 percent

population was very poor, of which 56 percent rural and 49 percent urban people were below poverty line. In 2012-13, the percentage of poverty in rural and urban areas was 29.5 and 25.5 respectively and overall poverty percentage was 27.5.

Objectives of SHG-Bank Linkage Programme

The objectives behind SBLP are as follows:

- To bridge the gap between banks and the poor people by providing micro credit.
- To encourage savings of the poor and needy members of self help groups.
- To provide microfinance and other necessary services to rural people.
- To manage and supervise effectively micro credit among the members of SHGs.
- To have collective responsibility for prompt repayment of borrowed loans.
- To facilitate wider outreach, lower transaction costs and risk costs.

Self Help Group-Bank Linkage Model

SHGs are the small groups of 10-20 people who are economically homogeneous and belong to the same locality / village. These groups comes together to save and contribute to common fund regularly, have collective decision making and leadership, and provides collateral free loans at market driven interest rates. Under SHG-BLP, SHGs are linked to banks through savings and loan products. The RBI also realized the potential strength of SBLP in promoting financial inclusion and thus, suggested commercial banks, regional rural banks and cooperative banks to consider lending to SHGs as a part of their rural lending programme.

Models of SHG- Bank Linkage Programme

Three different models of SHG-BLP have been evolved overtime in India as follows:

Model 1: SHGs Promoted and Supported by Banks. In this model banks play a key role in promoting and supporting the SHGs by providing bank credit. The groups are formed and nurtured by the banks. The bank takes the full responsibility to form the groups, to open the savings accounts and to provide credit and other services to the members of the group.

Model 2: SHGs Promoted by NGOs but financed by Banks. In this model NGOs promote and support SHGs with training and other facilities but they are financed by banks. The NGOs or formal agencies are the facilitators. They, as a facilitator, organize, form and nurture the group and also impart training to them in thrift and credit management. Here, banks

provides loans directly to SHGs. Model 3: SHGs Promoted by NGOs and financed by the NGO / any formal Agency. In this model, NGOs take the responsibility of promotion and financing SHGs. Banks take the responsibility for financing SHGs through the NGOs. However, this model of SBLP is not popular among the SHGs.

Advantages of SHG-Bank Linkage Model

The success of this model can be attributed to the collective efforts, the managerial capabilities and the financial strength of the banks. The advantages are as under:

1. Peer Group Monitoring
2. Peer Pressures
3. Joint Liability
4. Homogeneous and Affinity in Group
5. Compulsory Savings Mobilisation.

NABARD's Strategic Focus on SHG-BLP (2013-17)

The NABARD has realized the catalyzing role played by SBLP and announced its strategy for the development of this programme as follows:

- All eligible poor rural households should be covered through SHG-BLP by 2017. About 20 lakh new SHGs are to be promoted and linked to the banks.
- Focus areas for promotion of SHG-BLP in 127 districts from resource poor states like U.P., M.P., W.B., Bihar, Chhattisgarh, Jharkhand, Rajasthan, Maharashtra, Odisha and Assam where less than fifty percent potential have been exploited.
- Promotion of women SHGs in naxalist affected and backward districts of the country should be speed up to cover every rural household.
- Convergence of this programme with National Rural Livelihood Mission and also convergence of SHG_BLP and financial inclusion initiatives.
- There should be a strategic shift from state and district based planning for SHGs-BLP to block-based planning to address the issue of intra-district imbalances in promotion of SH-
- Additional financial literacy drive to be initiated at the SHG level to eliminate over-indebtedness of the members.
- Priority to shift promotion of SHGs from providing livelihood opportunities to skill building, production optimization, value chain facilitation and market linkage.

- Use of ICT at primary level of SHGs, an institutional level of SHPIs and at the National level.

Progress of Self Help Groups Linkages Programme

The SHG-BLP has made tremendous progress as the no. of SHGs has increased from 600 in 1993 to 69.53 lakh in 2010 . The GOI, RBI, NABARD, commercial banks, cooperative banks and RRBs has taken various measures to promote this SHGs movement. There is a decline in the no. of SHGs from 74.62 lakh to 73.18 lakh SHGs since 2010 -11 because the existing SHGs were gone out of the SHG-BLP. Banks are now reporting only operating savings accounts of SHGs and also are closing down accounts with NIL balances. Moreover, more than 81% (59.38) of them were women SHGs. Total amount of savings of all the SHGs with banks was Rs.8217 crore of which 79% savings belong to women SHGs. All banks have disbursed Rs. 136 crore loans to SHGs in 1999- 00, Rs. 14548 crore in 2010-11, and Rs. 20585 crore in 2012-13, whereas women SHGs received 87% of the total loans disbursed in 2012-13. Loans outstanding against all SHGs were Rs. 39375 crore and Rs. 32840 crore (83.3%) against women groups.

Table 1: Overall Progress under SHG-Bank Linkage Programme(Rs. Crore)

Particulars		2010-11		2011-12		2012-13	
		No. of SHGs (Lakh)	Amount	No. of SHGs (Lakh)	Amount	No. of SHGs (Lakh)	Amount
SHG Savings with Banks	Total SHGs	74.62	7016.3	79.60	6551.41	73.18	8217.25
	All Women SHGs	60.98	5298.65	62.99	5104.33	59.38	6514.86
	% of WSHGs	81.70	75.50	79.10	77.90	81.10	79.30
Loan Disbursed	Total SHGs	11.96	14547.73	11.48	16534.77	12.20	20585.36

to SHGs	All Women SHGs	10.17	12622.33	9.23	14132.00	10.37	17854.31
	% of WSHGs	85.00	86.80	80.40	85.50	85.10	86.70
Loans Outstanding against SHGs	Total SHGs	47.87	31221.17	43.54	36340.00	44.51	39375.30
	All Women SHGs	39.84	26123.75	36.49	30465.28	37.57	32840.00
	% of WSHGs	83.20	83.70	83.80	83.80	84.40	83.30

Source: Annual Report 2012-13, NABARD, Mumbai, 2013, Pg. 8.

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Region wise Progress of NABARD SHG-Bank Linkage Programme

There is wide and increasing regional disparity in terms of growth, savings and loans disbursed. For instance, Southern Region accounted for 48.40 %

(35.42 lakh) of the total SHGs, followed by Eastern Region (20.10 %), while North Eastern Region has only 4.43% of SHGs. In the case of savings, Southern Region highest amount of savings of Rs. 5083 crore (61.86%), while the North Eastern Region made only Rs130 crore savings (1.58 %). The Southern Region received Rs. 17364 crore (84.35%) of the total loans disbursed and the North Eastern Region received only Rs. 180 crore (0.87 %) of the total loans. The amount of loans outstanding was also highest at Rs. 27635 crore (70.18%) in respect of the Southern Region followed by the Eastern Region at 14. 06%. The Central Region has the highest NPA at17.28%, while it was lowest at 5.11% in respect of Southern

Region. The progress of Northern Region where majority people are poor, in respect of this SHG-BLP was very dismal.

Progress under Microfinance-Agency-wise

The agency-wise details reveals that the commercial banks have largest no. of savings accounts about 56 % (40.77) lakh followed by RRBs with savings accounts of 20.38 lakh (28%). Total saving amount with commercial banks and RRBs was 67.34% and 18.58% respectively. The share of commercial banks in total disbursement of loans was 65% followed by RRBs having 27% share in disbursement of loans. Commercial banks are also leading in outstanding of loans with 68% share, while the share of RRBs and Cooperative banks was 27% and 6% respectively. The NPA of CBs and COBs was over 8% and that of RRBs, was only 4 percent.

Achievements of Self Help Groups

Micro finance is an alternative financial system available for poor people. Introduction of SHG-Banking Model has made financial service sector more flexible to poor and needy members of SHGs. It offers deposit-s facilities, increase savings habits and also provides a very flexible credit at a reasonable interest rates. The achievements of SHGs movements are summarized as: It increases propensity to save of the members of SHGs. It increases income and reduces income inequalities. Indebtedness can be reduced, more employment can be created, women empowerment is achieved and lastly, skills and assets of poor women members of SHGS are mobilized.

Problems of SHGs in India

Although the growth of SHGs in the country is satisfactory, there are various factors that are hampering the growth and effectiveness of the SHG movement in India such as:

- The training and institutional capacity of SHGs has not improved due to diversion of or lack of funds. Funds earmarked for capacity building and training are misused for other purposes like organizing political rallies or funding the infrastructure of training institutions.

- The growth of SHG movement has been adversely affected due to too much interference of politics. SHGs are either promoted or owned by political leaders and used as a means to get political benefits.
- Some banks are reluctant to adopt SHG-BL Programme as they feel that this is an additional burden on them, without any financial benefits. As a result, the growth of SHGs has skewed in various states of the country on account of poor banking infrastructure and their performance.
- Micro credit is one of the instruments to alleviate poverty in rural area. It is essential to combine micro credit with other innovative programmes like education, health, employment, etc. Poor people should be linked with market-s, financial institutions and multinational corporations. However, the government should provide basic education, health facilities and infrastructure.

Policy Recommendations

Banks, NGOs and the Government should promote SHGs in tribal regions. Banks should promote, nurture and train SHGs in rural areas. Banks, NGOs and the Government should take initiative in building capacity. Encouragement should be given to SHGs towards development of entrepreneurs. Raw material and other equipments should be provided to SHGs. Marketing assistance should be provided through organizing exhibitions. SHGs should be sustainable from long term point of view. Leadership should be developed to solve the problem of inefficient management.

Conclusions

A majority population in India is still living below the poverty line. Poverty alleviation, employment generation, reduction in economic inequalities and rural development are the important objectives of economic policy of the country. The achievements of SHG-BLP are remarkable through which credit has been provided to the poorest of the poor. Banks are now offering microfinance services to low income groups in rural areas. Microfinance is helping to poor people and members of SHGs in starting the self employment in rural areas and thus, the overall growth of the Indian economy.

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